



UMHLABUYALINGANA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2008

UMHLABUYALUNGANA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2008

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UMHLABUYALINGANA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2008

GENERAL INFORMATION

Members of the Executive Committee

Mayor

Deputy Mayor

Councillors (Exco)

: Councillor D. A. Ncube
: Councillor T. Mkhembi
: IS Mkhombo
: NR Mthethwa
: MS Mabika

GRADING OF LOCAL AUTHORITY

Grade 2

AUDITORS

Auditor General

BANKERS

First National Bank of SA Limited

REGISTER OFFICES

Municipal Offices

Private Bag 901
KWANGWALE
3973

Telephone: (035) 5920680
Fax : (035) 5920672

MUNICIPAL MANAGER

Rev. S.E. Mandeke

CHIEF FINANCIAL OFFICER

Mr. M.M. Zungu,

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 1 to 22 were approved by the Municipal manager on the 31 August 2008.

1 to 22 were approved by the Municipal manager


MUNICIPAL MANAGER
Rev. S.E. Mandeke


CHIEF FINANCIAL OFFICER
M.M. Zungu

UMHLABUYALINGANA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2008

FOREWORD BY THE HONORABLE MAYOR

Just from very difficult year in terms of financial challenges I am pleased to report that the municipality is showing a recovery from the past year reported accumulated deficit which is evidenced by reporting a comeback operating surplus of R 2 093 635 from operating deficit of R8 690 415 ,however we will endeavor for further decrease of this deficit during the preceding financial year.

The budget for the 2008/2009 financial year has been submitted to the National Treasury for approval.

The emphasis will now remain on maintaining sound financial controls to ensure that spending is properly managed.

My thanks go the Municipal Manager and his staff and my fellow councilors and various committees for the hard work and cooperation during the year and the atmosphere in which I have been able to perform my duties.

I believe that with the dedication of everyone at council our work will go a long way to achieving needs of the communities within our Municipal boundary.



THE HONORABLE MAYOR
CLIF D A NCUBE

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF UMHLABUYALINGANA MUNICIPALITY FOR
THE YEAR ENDED 30 JUNE 2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1 I have audited the accompanying financial statements of the Umhlabuyalingana Municipality which comprise the balance sheet as at 30 June 2008, income statement, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages [xx] to [xx]

Responsibility of the accounting officer for the financial statements

2 The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note and in the manner required by the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act, 2007 (Act No. 1 of 2007 (DoRA). This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3 As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit

4 I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008* issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

5 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

UMHLABUYALINGANA MUNICIPALITY

**ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2008**

CHIEF FINANCIAL OFFICER'S REPORT CONTINUED.

Resources used to finance the fixed assets were as follows:-

	2008 ACTUALS	2008 BUDGET	2007 ACTUALS
Capital development fund			
Contribution from:			
Operating account	43,687	200,000	
Reserves	21,221,859	12,396,000	14,706,464
Grants and Subsidies	21,265,546	12,596,000	14,706,464

A complete analyses of capital expenditure (budgeted and actuals) is included in appendix C

3. FUNDS AND RESERVES

More information regarding funds and reserves are disclosed in note 2 and appendix A to the Annual Financial Statements.

4. EXTERNAL LOANS, INVESTMENTS AND CASH

The municipality's financial structure is currently grants and subsidies, no external loans have been secured. Investments and cash at 30 June 2008 amounted to R24 738.59 and an overdraft of R 1 086 044.03, respectively. (R 546 485 in 2007)

5. EXPRESSION OF APPRECIATION

I would like to thank the mayor, councilors, management committee for the support they have given me and to the officials of the municipality and in particular to the staff of my own directorate for their assistance and support during the entire year.


MM ZUNGU
CHIEF FINANCIAL OFFICER
31 August 2008

UMHLABUYALINGANA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2008

CHIEF FINANCIAL OFFICER'S REPORT

BACKGROUND

Umhlabyalingana Municipality is a grade two municipality within the Umkhanyakude District Municipality. It covers four traditional authorities; namely Tlothe, Mashabane, Mabaso and Mbila. The Municipality has been in existence for six and half years and has 13 wards with 26 councillors. The Municipal area is mainly rural.

CHALLENGES

The municipality has been under extremely challenging conditions. It has to address challenges of Infrastructure, Tourism, Local economic development, poverty, Drought, GRAP implementation and getting other sources of revenue.

1. OPERATING RESULTS

Details of operating results per department are included in appendices D and E. The applicable statistics are shown in appendix F. For overall operating results for the year ended 30 June 2007 are as follows:

	ACTUALS 2007	ACTUAL 2008	VARIANCE 2007/2008	BUDGET 2008	VARIANCE %ACTUALS /BUDGET
INCOME					
Opening surplus					
Operating income for the year	44,843,623	34,293,561	-23.53%	39,031,753	-12.14%
Closing deficit	11,542,899	9,182,845	-20.45%		
	56,386,522	43,476,406		39,031,753	
EXPENDITURE					
Operating deficit					
Operating expenditure for the year	3,011,369	11,542,899	283.31%		
Sundry transfers	53,534,038	32,199,926	-39.85%	38,881,753	-17.18%
Closing surplus	(158,885)	266,420	-267.68%		
	56,386,522	44,009,245			

The capital expenditure on fixed assets during the year amounted to R 6 227 489 which is 53% less than the previous year. The actual expenditure is 46.11% less than budgeted for and consists of the following:

	ACTUALS 2008	BUDGET 2008	ACTUALS 2007	VARIANCE %
Land and Buildings	1,126,600	7,396,000	2,180,361	-48.33%
Infrastructure	5,057,202	5,000,000	11,717,540	-56.84%
Other fixed assets	43,687	400,000	808,563	-94.60%
	6,227,489	12,796,000	14,706,464	-57.65%

assessments. The auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control

6 An audit also includes evaluating the

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements

7 I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

Basis of accounting

8 The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1

Basis for qualified opinion

Debtors

9 The financial statements reflect a Value Added Tax (VAT) receivable amount of R5 220 268 in Note 7. The receivable represents claims for VAT refunds in respect of a number of VAT periods, including R3 836 301 relating to prior years. The municipality is currently undergoing a VAT audit by South African Revenue Services (SARS). Since we have not been provided with apportionment confirmation of the claim receivable, the claim of R3 836 301 relating to prior year is considered to be irrecoverable and has been recorded on the schedule of unrecorded audit differences

As a result VAT debtors are overstated and expenditure understated by R3 836 301

Creditors

10. The amount in respect of Pay As You Earn (PAYE) due for the year to June 2008 reflected on the statement from SARS was R1 342 407. This excludes penalties and interest of R127 780 and R98 243 respectively not raised and recorded in the books of the municipality. The municipality paid R504 060 of this liability. However, the outstanding PAYE liability was recorded in the financial statements as R702 836, which is understated by R115 511 (R361 534 including penalties and interest)

As a result creditors are understated and expenditure overstated by R135 511 (R361 534 including interest and penalties)

Qualified opinion

11. In my opinion except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements of the Umhlabyalingana Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended have been prepared in all material respects in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA and DORA.

Emphases of matters

I draw attention to the following matters.

Going concern

12. With regards to concomitant assets, Umhlabyalingana Municipality had an accumulated operating deficit of R8 916 893 at 30 June 2008 and as at that date the entity had a cash overdraft ~~for the financial statements of R1 055 748~~. During the audit of funds, reserves and provisions, it was noted that the funds, reserves and provisions per the financial statements amounted to R13 087 222. Consequently, there is a shortfall of R14 142 970 in the financing of the funds reserves, creditors and provisions.

In addition the municipality is unable to meet all its daily current creditor commitments and payments. This is due to the erosion of its capital base over the last two years and resulting in creditors being financed through a short term overdraft.

Unauthorised expenditure

13. The municipality incurred unauthorized expenditure of R2.5 million, being conditional capital grant fund(s) utilised for operating expenditure. The unauthorised expenditure is in terms of section 1 of the MFMA – Definitions (Unauthorised expenditure (f) – a grant by the municipality otherwise than in accordance with this Act).

14. Unauthorised expenditure of R555 498 was incurred, being the over-expenditure of repairs and maintenance and leave encashment budgets. The over-expenditure was not taken to council for ratification, as required by section 29(3) of the MFMA. This is in terms of section 1 of the MFMA – Definitions (Unauthorised expenditure – overspending of the total amount appropriated for a vote in the approved budget).

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements

Internal controls

15. Section 52(1)(c) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In certain instances deficiencies exist in more than one internal control component.

Reporting Item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Debtors			✓		
Creditors			✓		
Control environment establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.					
Risk assessment involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.					
Control activities policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.					
Information and communication supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.					
Monitoring covers external oversight of internal controls over financial reporting by management or other parties (outside the process, or the application of independent methodologies like customised procedures or standard checklists, by employees within a process).					

Non-compliance with applicable legislation

Municipal Finance Management Act

16. In accordance with Section 29 (3) of the MFMA No. 56 of 2003, an adjustment budget was not passed within 60 days after the incurring of unauthorised expenditure in order for the Council to ratify the expenditure.
17. MFMA circular no. 34 section 1 was not adhered to as contracts awarded in excess of R100 000 were not reported to National Treasury as required.

Division of Revenue Act

18. In accordance with section 71 of the DORA for the period June 2008, the accounting officer of the municipality did not submit to national treasury, the electronic or signed returns or its conditional grant spending in terms of section 31(2)

Supply chain management

19. In accordance with section 12(1)(e) the municipality did not follow the required range of supply chain management (SCM) processes to include tenders, quotations, auctions, and other types of competitive bidding

Matters of governance

20. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows

Matters of governance		Yes	No
Audit committee			
<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year 		✓	
<ul style="list-style-type: none"> The audit committee operates in accordance with approved written terms of reference 		✓	
<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA 		✓	
Internal audit			
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year 		✓	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan 			✓
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA 			✓
Other matters of governance			
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA). 		✓	
<ul style="list-style-type: none"> The annual report was submitted to the auditor for consideration prior to the date of the auditor's report 			✓
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit 			✓
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information 			✓

and/or the unavailability of senior management			
• The prior year's external audit recommendations have been substantially implemented			✓
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)			
• The municipality submitted progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007			✓
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.			N/A
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008			✓

Unaudited supplementary schedules

21. The supplementary information set out in appendix A to F does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly, do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

22. I was engaged to review the performance information.
- Responsibility of the accounting officer for the performance information**

23. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

24. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2006* issued in *Government Gazette No. 31057 of 15 May 2006* and section 45 of the Municipal Systems Act No 32 of 2000.
25. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

26. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below

Audit findings (performance information)

Non-compliance with regulatory requirements

27. In accordance with section 38 (a) of the MSA, the municipality could not provide a detailed description of the process followed for the performance system. Consequently it could not be ascertained whether the municipality established a performance information system that is
- commensurate with its resources;
 - best suited to its circumstances and
 - in line with the priorities, objectives, indicators and targets contained in its integrated development plan
28. In accordance with section 38 (c) of the MSA, the municipality could not provide a portfolio of evidence to support the final performance ratings to provide assurance that the municipality administered its affairs in an economical, effective, efficient and accountable manner.
29. No performance information report was presented for an annual audit in terms of section 45(b) of the MSA by the date of my report

APPRECIATION

30. The assistance rendered by the staff of the Umhlabyalingana Municipality during the audit is sincerely appreciated

Pietermaritzburg
28 November 2008



UMHLABUYALINGANA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS **for the year ended 30 June 2008**

ACCOUNTING POLICIES

1 BASIS OF PRESENTATION

1.1 The financial statement have been prepared in accordance with the historical cost, so as to conform to the standards laid down by the Institute of Municipal Officers in its Code of Accounting practice (1997) and Report on Published Annual Financial Statements (second Edition January 1996)

1.2 The financial statements are prepared on a historical cost basis adjusted for fixed assets as fully detailed

in accounting policy note 3. The accounting policies are consistent with those applied in the previous years except if otherwise indicated.

1.3 The financial statements are prepared on the accrual basis as follows:-

* Income is accrued when measurable and available to finance activities.

* Expenditure is accrued in the year in which it is incurred.

2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

4. CONSOLIDATION

The balance sheet includes general services, Capital Development Fund, Reserves and Provisions

5 FIXED ASSETS

Fixed Assets are stated at their historical cost while they are in existence and fit for use..

5.1 DEPRECIATION

The balance shown against the heading Loans Redeemed and other Capital Receipt in notes to financial statement is tantamount to a provision of depreciation, how ever certain structural differences exist.

Asset may be acquired through:

* Appropriations from income where the full cost of the assets form an immediate and direct charge against operating income, therefore it is unnecessary to make any further provision for depreciation.

* Grants or donations, where the amount representing the value of such grant or donation is immediately credited to the loans redeemed and other capital receipts account.

UMHLABUYALINGANA MUNICIPALITY

ANNUAL FINANCIAL STATEMENT
FOR THE ENDED 30 JUNE 2008

ACCOUNTING POLICIES CONTINUED

6. FUNDS AND RESERVES

6.1 CAPITAL DEVELOPMENT FUND

The Local Authorities Ordinances require a minimum contribution of 3% of the defined income of the municipality for the immediately preceding financial year to be contributed to this fund.

6.2 Unexpended grants received both conditional and unconditional, are transferred from income statement to reserves. The grants are released from reserves to the income statement when they have been expended.

7. INVESTMENTS

7.1 Financial Instruments

Financial Instruments, which includes short term deposits invested in registered commercial banks are stated at cost.

Surplus funds are invested at a low risk banks. Interest earned is credited to operating income and to the Capital Development Fund.

8 INCOME RECOGNITION

The municipality relies on grants received from National, Provincial government and District Municipality and other income to finance its operations. No rates or service charges are levied. Grants are credited to the income statement to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

9. PROVISIONS

provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate

9.1 STAFF LEAVE ENCASHMENT

The provision is based on actual leave owing to staff members at the Balance Sheet date.

9.2 AUDIT FEES

The provision is calculated at 1% of the current and capital expenditure of the current financial year excluding capital expenditure funded from conditional grants.
Refer Local Government Audit Circular No. 1 of 2000.

9.3 DOUBTFUL DEBT

The provision is based on the assessment of uncertainty with regard to the recoverability of the debt

9.4 PERFORMANCE BONUSES

The provision is based at 15% of the remuneration package of qualifying employees and where bonuses are paid before the date of issue of financial statement the provision is measured at actual bonuses paid.

UMHLABUYA LINGANA LOCAL MUNICIPALITY
BALANCE SHEET AS AT 30 JUNE 2008

	Note	2008 R	2007 R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		10,622,257	10,339,843
Statutory funds	1	3,433,903	2,903,849
Reserves	2	7,188,354	7,435,994
Accumulated deficit		(9,182,845)	(11,547,899)
EMPLOYMENT OF CAPITAL		<u>1,439,412</u>	<u>(1,203,056)</u>
Fixed assets	4	-	-
Long term debtors	5	-	-
NET CURRENT ASSETS		1,439,412	(1,203,056)
CURRENT ASSETS			
Investments - short term deposits	6	5,256,373	4,681,100
Debtors	7	24,739	13,242
Long term debtors - short term portion	5	5,226,078	4,073,954
Cash	3	5,556	58,660
CURRENT LIABILITIES			
Creditors	9	(3,816,961)	(5,884,156)
Provisions	8	(2,099,653)	(5,289,899)
Bank overdraft	3	(631,264)	(594,257)
		(1,086,044)	-
		<u>1,439,412</u>	<u>(1,203,056)</u>

**UNHLABUYALINGANA LOCAL MUNICIPALITY
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

2007 Actual Income R	2007 Actual Expenditure R	2007 Surplus/ Deficit R		2008 Actual Income R	2008 Actual Expenditure R	2008 Surplus/ (Deficit) R
44,843,623	53,534,038	(8,690,415)	RATES AND GENERAL SERVICES	34,293,561	32,199,926	2,093,635
44,843,623	53,534,038	(8,690,415)	Community services	34,293,561	32,199,926	2,093,635
-	-	-	Subsidised services	-	-	-
-	-	-	Economic services	-	-	-
-	-	-	TRADING SERVICES	-	-	-
<u>44,843,623</u>	<u>53,534,038</u>	<u>(8,690,415)</u>	TOTAL	<u>34,293,561</u>	<u>32,199,926</u>	<u>2,093,635</u>
	158,835		Appropriations for the year			266,420
	<u>(8,531,530)</u>		Net Surplus/(Deficit) for the year			<u>2,360,054</u>
	(3,011,369)		Accumulated Surplus/(Deficit) beginning of the year			(11,542,899)
	<u>(11,542,899)</u>		ACCUMULATED SURPLUS/(DEFICIT) AT THE END OF THE YEAR			<u>(9,182,845)</u>

**UMHLABUYALINGANA MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008**

2007/2008 2006/2007
R R

CASH RETAINED FROM OPERATING ACTIVITIES

Cash generated by operations
Investment income
(Increase)/Decrease in working capital
Less: External interest paid
Cash available from operations
Contribution from public and state
Net proceeds on sale of fixed assets *

	19,661,312	7,229,752
14	(6,014,222)	(32,867,121)
	118,318	29,542
15	(4,283,709)	4,559,055
	¥(10,179,613)	¥(28,279,124)
	29,840,976	35,508,876
		-

CASH UTILIZED IN INVESTING ACTIVITIES

Investment in Fixed assets

	(21,265,546)	(14,706,464)
4	(21,265,546)	(14,706,464)

NET CASH INFLOW / (OUTFLOW)

	(1,604,234)	(7,476,712)
--	--------------------	--------------------

CASH EFFECTS OF FINANCIAL ACTIVITIES

(Increase) / Decrease in cash investments
(Increase) / Decrease in cash
NET CASH (GENERATED) / UTILISED

	11,497	(6,554,190)
17	(1,615,731)	(981,605)
	(1,604,234)	(7,535,795)

UMHLABUYALINGANA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

1. STATUTORY FUNDS

Capital development fund

(Refer to appendix "A" for more details)

	2008	2007
	R	R
3,433,903		2,903,849
3,433,903		2,903,849

2. RESERVES

Proclamation Grant
Geog. Ins Sys Grant
Land Use Mgmt Sys Gr
FMG
Rate Implementation Grant
Project Consolidate
Investment Planning
MIG
Urban Development
DBSA
Library Subsidy
Nhlange Lake Restaurant
Manzengwenya cultural project
Phelandaba Development
Kwa - Tembe Concrete project

(Refer to appendix "A" for more details)

-	130,620
-	9,755
100,000	779,510
234,504	430,014
-	396,283
1,286,000	3,736,045
-	441,763
2,153,950	1,511,904
1,975,000	
670,000	
78,900	
180,000	
180,000	
150,000	
180,000	
7,188,354	7,435,994

3. BANK, CASH AND OVERDRAFT BALANCES

The municipality has the following bank accounts:-

Current Account (Primary Bank Account)

First National Bank - Hluhluwe Branch - A/c 62025236408

Cash book balance at the beginning of the year -

Cash book balance at the end of the year (overdrawn)

Bank statement balance at the beginning of the year (overdrawn)
Bank statement balance at the end of the year (overdrawn)

529,251.23	6,932,776.57
(1,086,044.03)	529,251.23
762,935.81	3,115,098.88
(513,415.56)	762,935.81

UMHLABUYALINGANA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

3. BANK, CASH AND OVERDRAFT BALANCES (continued)

	2008	2007
R	R	R
Cash on Hand (Petty Cash)		
Cash book balance at the beginning of the year	5,992.00	-
Cash book balance at the end of the year	<u>5,555.91</u>	<u>5,992.00</u>
Call Accounts		
First National Bank - Hluhluwe Branch - Acc.		
Cash book balance	11,892.10	1,348.00
Bank statement balance	<u>11,892.10</u>	<u>1,348.00</u>
Standard Bank - Empangeni Branch - Acc.		
Cash book balance	12,846.49	11,894.00
Bank statement balance	<u>12,846.49</u>	<u>11,894.00</u>
4. FIXED ASSETS		
Fixed asset at the beginning of the year	28,555,363	13,848,898
Capital expenditure during the year	21,265,546	14,706,465
Less asset written off, transferred or disposed	-	-
Gross carrying value of fixed assets	<u>49,820,909</u>	<u>28,555,363</u>
Less loans redeemed and other capital receipts	<u>(49,820,909)</u>	<u>(28,555,363)</u>
Nett Fixed Assets	<u>-</u>	<u>-</u>
5. LONG TERM DEBTORS		
Staff Vehicle Loans	-	58,660
Less short term portion of long term debtors	<u>-</u>	<u>(58,660)</u>
6. CALL INVESTMENTS DEPOSITS		
30 days notice deposits	24,739	13,242
Total Investments	<u>24,739</u>	<u>13,242</u>
7. DEBTORS		
UMkhanyokude District Municipality	653,725	653,725
Overpayments (councillors cellphone)	314,699	314,699
Vat	5,220,268	3,836,301
Other	3,306	235,150
Less Provision for Bad debt	<u>6,191,998</u>	<u>5,039,875</u>
Total current debtors	<u>-965,920</u>	<u>-965,920</u>
	<u>5,226,078</u>	<u>4,073,955</u>

UMHLABUYALINGANA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

8. PROVISIONS

Service bonus
Performance bonus
Staff leave
Audit Fees

2008	2007
R	R
310268	0
185,827	0
445,437	269,273
0	324,984
631,264	594,257

- Performance bonuses are paid one year in arrears as the assessment of eligible employees had not taken place at the reporting date and no present obligation existed.

- Staff leave encashment is based on actual leave days outstanding at the reporting date

9. CREDITORS

Trade creditors
Accrued expenses

633,549	4,885,902
1,466,102	403,997
2,099,651	5,289,899

10. FINANCE TRANSACTIONS

Total interest earned and paid:

Interest earned
Interest paid
<i>Net interest earned</i>

118,318	282,742
118,318	282,742

11. EMPLOYEE RELATED COSTS

Remuneration of the Municipal Manager

Annual remuneration
Performance Bonus
Contribution to UIF
Total

495,199	465,245
49,516	46,524
1,497	1,392
546,212	513,161

Remuneration of the Chief Financial Officer

Annual remuneration
Performance Bonus
Contribution to UIF
Total

445,690	418,727
44,565	62,809
1,497	1,392
491,752	482,928

Remuneration of Head of Departments

Annual remuneration
Performance Bonus
Contribution to UIF
Total

12.

900,627	1,190,973
91,746	94,097
3,368	4,176
995,742	1,289,246

UMHLABUYALINGANA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

12. REMUNERATION OF COUNCILLORS

	2008	2007
R	R	R
Mayor	245,707	200,876
Deputy Mayor	187,454	154,676
Speaker	187,454	154,676
Executive Committee Members	581,209	464,029
Councillors	2,760,804	2,213,766
Total Councillor's Remuneration	3,962,628	3,188,023

In-Kind Benefits

The Mayor, Deputy Mayor and the Speaker are Part-time councillors. Each is provided with an office and the Mayor is provided with the Secretarial support at the cost of the council.
The Mayor has use of a council owned vehicle for official duties.

13. APPROPRIATIONS

Appropriation account:		
Accumulated surplus/ (deficit) at the beginning of the year	(11,542,899)	(3,011,369)
Operating surplus/ (deficit) for the year	2,093,635	(8,690,415)
Appropriation for the year	796,473.55	158,885
Contribution to CDF	530,054	-
Prior year adjustments	266,120	158,885
Accumulated surplus/ (deficit) at the end of the year	(8,657,791)	(11,542,899)

Operating account:

Capital expenses	21,265,546	14,708,466
Contribution to reserves	4,055,946	4,241,918
Contribution to bad debts provision	-	965,921
Total	25,321,492	19,914,304

14. CASH GENERATED BY OPERATIONS

Surplus/(deficit) for the year	2,093,635	(8,690,415)
Prior year adjustments:	(266,420)	158,885
Appropriation charged against income	26,482,810	20,126,197
Capital development fund	530,054	599,839
Provisions	631,264	577,976
Reserves	4,055,946	4,241,918
Fixed assets	21,265,546	14,708,464
Total	28,310,025	11,594,667
Investment income	(179,736)	(29,542)
Transfer from reserves to operating income	(4,303,586)	(8,923,970)
Grants and subsidies received from the public and the state	(29,840,926)	(35,508,876)
Total	(6,014,222)	(32,867,721)

13-

UMHLABUYALINGANA MUNICIPALITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

	2008	2007
	R	R
15. (INCREASE) / DECREASE IN WORKING CAPITAL		
(Increase) / decrease in long term debtors		34,375
(Increase) / decrease in short term portion for long term debtors	58,660	32,136
(Increase) / decrease in debtors	(1,152,123)	(533,994)
Increase/(decrease) in creditors	(3,190,246)	5,026,538
	(4,283,709)	4,559,055
16. (INCREASE) / DECREASE IN INVESTMENTS		
Investment at the beginning of the year	13,242	6,567,432
Investment at the end of the year	24,739	13,242
Net (increase) / decrease in cash equivalents	11,497	6,554,190
17. INCREASE/ (DECREASE) IN CASH		
Cash at the beginning of the year	535,243	1,516,848
Cash on hand	5,992	-
Cash at bank	529,251	1,516,848
Cash balance at the end of the year	(1,080,488)	335,443
Cash on hand	5,556	5,992
Cash at bank	(1,086,044)	529,251
	(1,615,731)	981,605
18. RETIREMENT BENEFITS		
Employee belong to the following funds within the Natal Joint Municipal Pension / Provident Fund which provide retirement benefits to such employees,		
(i) Natal Joint Municipal Fund (retirement)		
(ii) Natal Joint Municipal Pension Fund (superannuation)		
(iii) Natal Municipal Pension Fund (provident)		
(iv) Natal Municipal Councillors Fund		

The retirement plan is subject to the Pension Fund Act 1956 with pensions being calculated on the final pensionable remuneration paid. Current contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed at least every three years. The latest independent valuation of the fund which indicated that the funds were in a sound financial position was undertaken on 31 March 2006

UMHLABUYALINGANA MUNICIPALITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

19. CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

Approved and contracted for

Infrastructure

Community

Other

Approved but not yet contracted for

Infrastructure

Community

Other

Total

This expenditure will be financed from:
Government Grants
Own Resources

	2008	2007
	R	R
Approved and contracted for		
Infrastructure	12,096,000	15,210,000
Community	11,896,000	15,210,000
Other	200,000	-
Approved but not yet contracted for		
Infrastructure	500,000	150,000
Community	-	150,000
Other	500,000	-
Total	12,506,000	15,360,000
This expenditure will be financed from:		
Government Grants	12,396,000	15,360,000
Own Resources	200,000	-
	12,596,000	15,360,000
	266,420	158,885

20. PRIOR YEAR ADJUSTMENTS

Scale and cancelled cheques relating to prior year are reversed and charged to the appropriation account.

21. OPERATING LEASES

(a) Gestetner Finance

This represents an operating lease for one Gestetner Digital copier, the minimum lease period is 60 months which expires on 30 November 2009 and the rental amount is R 1 900.00 excl VAT pm with 15% escalation

(b) Gestetner Finance (Fintech)

This represents an operating lease for two Gestetner Digital copier, the minimum lease period is 60 months which expires on 30 November 2010 and the rental amount is R 1 250.00 excl VAT pm per machine with 15% escalation

(c) Automated Office Technology (Pty) Ltd

This represents an operating lease for one photocopier machine, the lease agreement is for 60 months which expires on 31 March 2012 with 7.5% escalation. The rental amount is R 1 895.00 pm.

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UMHLABUYALINGANA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

22. OPERATING LEASES (continued)

2008
R

2007
R

(d) Automated Office Technology (Pty) Ltd

This represents an operating lease for telephone management system, the lease period is 48 months expires on 31 March 2011 with 7.5% escalation. The rental amount is R 520,00 p.m.

(e) Canon

This represents an operating lease for telephone equipments, the lease period is 48 months which expires on 31 March 2011 with 7.5% escalation. The rental amount is R 1 836,12 p.m.

UMHLABUYALINGANA MUNICIPALITY

APPENDIX A

STATUTORY FUNDS, TRUST FUNDS, RESERVES

	Balance at 01 July 2007	Contributions during the year	Interest on Investments	Transfer to Operating Income during the year	Balance at 30 June 2008
	R	R	R	R	R
<u>STATUTORY FUNDS</u>					
Capital development fund	2,903,849	530,054	-		3,433,903
	<u>2,903,849</u>	<u>530,054</u>	<u>-</u>	<u>-</u>	<u>3,433,903</u>
<u>RESERVES</u>					
<u>Information (RMB)</u>	<u>1 301 825</u>			<u>1 301 825</u>	
GIS	9,755			9,755	-
LUMS	779,610			679,610	100,000
FMG	430,014			195,510	234,504
MPRA	396,283			396,283	-
PROJECT CONSOLIDATE	3,736,045			2,450,045	1,286,000
INVESTMENT PLANNING	441,763			441,763	-
MIG	1,511,904	642,046			2,153,950
URBAN DEVELOPMENT		1,975,000			1,975,000
DBSA		670,000			670,000
LIBRARY SUBSIDY		78,900			78,900
NHLANGE RESTURANT		180,000			180,000
MANZENGWENYA CULTURAL		180,000			180,000
PELANDABA DEVELOPMENT		150,000			150,000
KWATEMBE CONCRETE PROJ		180,000			180,000
	<u>7 435,994</u>	<u>4 055 946</u>	<u>-</u>	<u>4,303,586</u>	<u>7 188,354</u>

UMHLABUYALINGANA MUNICIPALITY

APPENDIX B

EXTERNAL LOANS AND INTERNAL ADVANCES

	Balance as at 01 July 2007	Received During the year	Redeemed / Written off during the year	Balance as at 30 June 2008
	R	R	R	R
EXTERNAL LOANS				
Short Term Loan	0	0	0	0
Annuitiy Loans	0	0	0	0
Government Loans	0	0	0	0
	0	0	0	0
INTERNAL ADVANCES/ BORROWING SERVICES				
Public Improvement fund	0	0	0	0
Capital Development Fund	0	0	0	0
	0	0	0	0

UMHLABUYALINGANA MUNICIPALITY

APPENDIX C: ANALYSIS OF FIXED ASSETS

Acquisition 2007 R		Budget 2008 R	Balance at 01 July 2007 R	Acquisition 2008 R	Disposals 2008 R	Balance as at 30 June 2008 R
	GENERAL SERVICES					
2,180,361	Land and Building	7,396,000	9,909,892	1,126,600	0	11,036,492
783,164	Furniture and computer equipment	400,000	2,282,690	43,687	0	2,326,377
-	Vehicles		1,944,575		0	1,944,575
25,399	Plant and equipment		810,275		0	810,275
-	Parks and recreations		187,042		0	187,042
11,717,501	Municipal roads and stormwater	5,000,000	12,058,116	5,057,202	0	17,115,318
-	Municipal Accommodation		918,606		0	918,606
-	Miscellaneous		444,167		0	444,167
-	Manguzi Sports Field			15,038,057	0	15,038,057
14,706,464	TOTAL FIXED ASSETS	12,796,000	28,555,363	21,265,546	0	49,820,909
	LOANS REDEEMED AND OTHER CAPITAL RECEIPTS	12,796,000	28,555,363	21,265,546	0	49,820,909
	Contribution from current income	400,000	11,902,664	43,687	0	11,946,351
	Grants and Subsidies received	12,396,000	16,652,699	21,221,859	0	37,874,558
	NETT FIXED ASSET	0	0	0	0	0

UMHLABUYALINGANA MUNICIPALITY
APPENDIX D

Analysis of Operating Income and Expenditure for the year ended 30 June 2008

Actuals 2007 R	Actuals 2008 R	Budgeted 2008 R
INCOME		
GRANTS AND SUBSIDIES RECEIVED	29,840,926	35,889,553
Equitable share	17,519,419	17,519,000
Financial Management	500,000	500,000
Public Participation		
Rates Implementation		160,000
Municipal Infrastructure	4,912,864	11,896,000
Municipal Systems Improvement	734,000	734,000
Project Consolidate	2,081,000	795,000
Investment Planning		
Mabaso Housing		
Organisational Structure, HR Systems		
Madonela Agricultural Project		290,463
Internal Control Unit		
Urban Development		
Integrated Development Planning	1,975,000	1,500,000
DBSA	213,000	200,000
Gijima funds	670,000	670,000
Library Subsidy	456,513	210,400
Nhlange Lake Restaurant	78,900	
Manzengwenya Cultural Project	180,000	180,000
Kwa - Tembe Concrete Project	180,000	180,000
Phelandaba Development	180,000	180,000
Mbila Tribal Hall Subsidy	150,000	150,000
Mbazana Hub		500,000
Induction Training Subsidy		214,460
Transfer from reserves	10,230	10,230
Operating Income	4,503,586	3,142,200
410,777	149,049	
8,923,970		
NETT INCOME	34,293,561	39,031,753
44,843,623		
EXPENDITURE	27,613,926	38,881,753
Salaries, wages and allowances	11,739,636	12,948,766
General expenses	8,349,461	12,395,073
Repairs and maintenance	851,902	847,000
Leave encashment	445,438	94,914
Contribution to capital expenditure	6,227,489	12,596,000
4,841,757	4,586,000	
Contributions		
Contribution to CDF	530,054	
Transfers to Reserves:	4,055,946	
4,241,918		
53,534,038	32,199,926	38,881,753
NETT EXPENDITURE	20-	

UMHLABUYALINGANA LOCAL MUNICIPALITY
APPENDIX E
DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

Actual Income 2007 R	Actual expenditure 2007 R	Surplus / (Deficit) 2007 R		Actual Income 2008 R	Actual expenditure 2008 R	Surplus / (Deficit) 2008 R	Budget Surplus/ Deficit 2008 R
44,843,623	53,534,038	(8,690,415)	Community Services	34,293,561	32,199,926	2,093,635	-
44,432,846	9,842,925	(9,842,925)	Council	0	4,770,473	(4,770,473)	(5,403,082)
410,777	25,934,634	18,498,212	Management	24,861,235	8,915,733	15,944,502	13,185,004
	2,622,704	(2,211,927)	Finance	644,964	3,184,450	(2,539,486)	177,112
	1,860,191	(1,860,191)	Corporate Services	0	2,040,643	(2,040,643)	(2,255,986)
	5,779,116	(5,779,116)	Technical	7,557,864	7,974,643	(416,779)	(403,293)
	551,588	(551,588)	Library	82,985	578,862	(495,877)	(644,115)
	3,002,838	(3,002,838)	Community Services	-	2,528,216	(2,028,518)	(3,031,690)
	3,040,042	(3,040,042)	Local Economic Development	1,146,513	2,105,806	(959,293)	(1,623,950)
-	-	-	Subsidised Services	-	-	-	-
-	-	-	Economic Services	-	-	-	-
-	-	-	Trading Services	-	-	-	-
<u>44,843,623</u>	<u>53,534,038</u>	<u>(8,690,415)</u>	Total	<u>34,293,561</u>	<u>32,199,926</u>	<u>2,093,635</u>	<u>-</u>
	158,885		Appropriations for the year				
	(8,531,530)		Net (deficit) for the year			265,420	
			Accumulated surplus/(deficit) at the			2,360,054	
		(3,011,369)	beginning of the year			(11,542,899)	
		<u>(11,542,899)</u>	Accumulated surplus at the end of the year			<u>(9,182,845)</u>	

UMHLABUYA LINGANA MUNICIPALITY
APPENDIX F
STATISTICAL INFORMATION AS AT 30 JUNE 2008

General statistics	2006/2007	Valuation date	2005/2006	Valuation date
Population	140964	2001	140964	2001
Registered voters	59054	2006	48000	2004
Surfacing (km)	8198m2		3698m2	
Valuations				
- Taxable (R'000)	0.00		0.00	
- Non-taxable (R'000)	0.00		0.00	
- Residential (R'000)	0.00		0.00	
- Commercial (R'000)	0.00		0.00	
Valuation date: 1 July 2000				
Assessment rate	0.00		0.00	
- Basis (per rand)	0%		0%	
- Discount: residential				
Number of employees	39.00		34.00	

The above statistical information is as per Statistics South Africa's register for the year 2001